

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6357

BILL NUMBER: HB 1299

NOTE PREPARED: Dec 21, 2004

BILL AMENDED:

SUBJECT: Avon Food and Beverage Tax.

FIRST AUTHOR: Rep. Whetstone

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

LOCAL IMPACT	CY 2005	CY 2006	CY 2007
Local Revenues	68,200	290,800	310,400
Local Expenditures			
Net Increase (Decrease)	68,200	290,800	310,400

Summary of Legislation: The bill authorizes the town of Avon to adopt an ordinance to impose a food and beverage tax. (The current statute applies to Mooresville, Shipshewana, Plainfield, and Brownsburg.)

Effective Date: July 1, 2005.

Explanation of State Expenditures: Current cost for the Department of State Revenue to administer, audit, and collect food and beverage taxes is approximately \$0.51 per \$100 of revenue. The Department's current resources are sufficient to absorb the additional costs associated with this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures: Under current law, if the fiscal body of the Town of Avon were to adopt an ordinance to impose a 1% food and beverage tax, Avon's fiscal body would be required to send a certified copy of the adopting ordinance to the Department of State Revenue. Additionally, if the tax is imposed by

ordinance, the Avon town fiscal officer would be required to establish a food and beverage tax receipts fund (FBTRF). The FBTRF would consist of all revenue generated by the proposed Avon Food and Beverage Tax and interest earned from the investment of money in the fund.

Explanation of Local Revenues: *Summary:* If the Town of Avon were to pass an ordinance to impose a 1% food and beverage tax, it is estimated the tax would generate **\$68,200** in CY 2005, **\$290,800** in CY 2006, and **\$310,400** in CY 2007.

Background: According to U.S. Census data, total food and beverage sales in Hendricks County for CY 1997 were \$68,393,000. Based on this amount, a 1% food and beverage tax would have generated an additional \$683,930, or 1% of the total sales. Before projecting future revenues, the 1% estimate must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax, but are not included in the Census data. In order to account for these prepared foods, an additional 10% adjustment to the \$683,930 estimate is added to establish a CY 1997 baseline of \$752,323 for Hendricks County.

The average growth rate of food and beverage-related total sales in Hendricks County reported by the U.S. Census Bureau from CY 1992 to CY 1997 was approximately 12.2%. This rate was used to project sales of food and beverages through CY 2000. Based on the economic performance of CY 2001 and CY 2002, collections in those years were based on state Sales Tax growth rates of 1% and 2% respectively. Using these growth rates, the base estimate for CY 2002 was \$1,095,000.

The average growth rate in Hendricks County personal income for eating and drinking places was 1.8 times the state average growth rate over the years 1997 through 2000. However over the years 2000 to 2002, the average growth of personal income in Hendricks was about 1.4 times the state average growth rate. To reflect the recent performance in the growth of personal income, the state revenue forecast for sales tax growth over FY 2005 of 4.9% was multiplied by 1.4 to reflect the higher rate of growth of personal income in Hendricks County. This adjustment assumes income has a direct relationship to sales. The result was a growth rate of 6.7%, which was applied to the CY 2005 county base of \$1.2 M. This adjusted rate was used to project revenue from CY 2005 through CY 2007.

According to a count of Hendricks County Health Department permits issued to food and beverage establishments, approximately 21.5% of the county's total food and beverage sales are generated in Avon. To reflect Avon's share of a countywide food and beverage tax, the 21.5% is applied to the county projections in CY 2005 through CY 2007.

The effective date of the bill is July 1, 2005. As a result, Hendricks County could begin receiving revenue from a food and beverage tax by the fourth quarter of CY 2005. A three-month lag is applied from the effective date of the bill to account for the time required for the county to pass an ordinance and then set up the mechanisms necessary to begin receiving revenue. The projected revenue for CY 2005 would be one-quarter of the annual projection, or approximately **\$68,200** [$0.25 \times (\$1,268,000 \times 21.5\%) = \$68,155$]. Twelve months of collection would begin in CY 2006.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Hendricks County.

Information Sources: Bob Walls, Department of State Revenue; U.S. Census Bureau; U.S. Department of Commerce, Bureau of Economic Analysis; Hendricks County Health Department, (317) 745-9217.

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